

DIRECTORS' REPORT

DEAR MEMBERS,

Directors of your Company are delighted to present the 13th Annual Report and Audited Statement of Accounts for the year ended 31st March, 2006, together with the Auditors' Report and the Comments on the Accounts by the Comptroller and Auditor General of India.

You will be pleased to know that Reserve Replacement Ratio was maintained higher than one during the year. Your Company continues to maintain production levels, after allowing production loss attributed to BHN accident despite the incidence of natural decline in reservoir energy.

Your Company, "India's Most Valuable Corporate" tested a new peak of **Two Trillion Rupees in terms of Market Capitalization** in May, 2006. Your Company also continues to maintain the unique distinction of having the **highest Net Worth** and the **highest Net Profit**, inspite of allowing discounts to the tune of Rs 119,565 million to PSU Oil Marketing Companies, in crude oil and product prices, as per administrative orders by the Ministry of Petroleum & Natural Gas, Government of India. Your Company remains the undisputed leader in India in terms of dividend payout also.



Hon'ble Minister of Petroleum & Natural Gas Mr. Murli Deora inaugurates the ONGC Golden Jubilee Museum (Phase-II).

Your Company has been awarded the **highest-ever Credit Rating for any Indian Corporate** by the International Credit Rating Agency, **Moody's Investors Services**. The rating awarded to your Company is **Baa1** (Indicative Foreign Currency debt rating) **2 notches higher than Sovereign rating / A2** (Local Currency issuer rating) **6 notches higher than Sovereign rating**, with 'stable' outlook. **CRISIL** and **ICRA** have also assigned your Company the **highest domestic credit ratings of AAA and LAAA**, respectively with a 'stable' outlook.

Your Company retains its *numero uno* ranking among all Indian Companies in the prestigious Forbes Global 2000 list of world's mega - corporations (based on composite evaluation of sales, profits, assets and market value). You will be surely happy to know that your Company has now improved its position in **Forbes Global 2000 to 256th ranking from 265th** in the previous year.

Your Directors report that your Company excelled in every dimension of corporate achievement, recognized through peer-and-public evaluation. The details of awards and recognitions to your Company are placed at **Annexure-F**. The important highlights are:

Highlights

- Your Company has been **ranked 158th among the world's largest companies**, in terms of Market Capitalization, in 10th annual **Financial Times, Global 500 listing** (June 2006).
- Your Company has been **ranked 3rd amongst the 50 Best Asian companies** and it **topped the list of six Indian companies in Business Week's** first annual ranking of Asia's 50 best-performing listed Companies drawn from a list of 625 Asian corporates (October 2005).
- Your Company in terms of revenue scaled up to **402nd rank in Fortune Global 500 list from 454th rank** in the previous list. **In terms of Profit, your Company is ranked 115th, leading all Indian Corporates** (July 2006).
- Your Company was ranked **26th in the Platts Top 250 Global Energy Companies Ranking, 2006** based on the five metrics of Asset, Revenue, Profit, Earning Per Share and Return on Invested Capital (ROIC) (March 2006).



Lighting of Ceremonial Lamp : ONGC Golden Jubilee Valedictory function at Dehra Dun on 14th August, 2006.

- Your Company bagged the prestigious **NDTV Profit Business Leadership Award**, in the oil and gas category. The Hon'ble Prime Minister, Dr. Manmohan Singh, gave away the Award which was received by the C&MD on 28th July, 2006.

In India your Company remained front runner in the following areas:



Hon'ble Prime Minister, Dr. Manmohan Singh presents the NDTV Profit Business Leadership Award to Mr. R. S. Sharma, C&MD.

- Biggest Wealth Creator amongst all listed companies on Indian bourses**
- Introduced Integrity Pact to institutionalise Transparency in public procurement practices.**
- Excellence in Promotion of Sports in PSU category**
- Trend Setter in PSU for Clean Development Mechanism (CDM) project in line with United Nations Framework Convention on Climate Change**
- Excellence in Corporate Social Responsibility**
- Excellence in Safety & Environment Management**
- Excellence in Corporate Governance**



Motilal Oswal Award for India's 'Biggest Wealth Creator'.

During the year, your Company discovered **Ten new finds of Hydrocarbons-5 in Deepwater, 3 in Shallow Water and 2 in Onshore** areas. You will be glad to note that your Company has taken initiatives for Shallow Gas Exploration in Cambay and KG Basins and presence of commercially exploitable shallow gas has been confirmed in Ankleshwar field.

In the previous five bidding rounds of NELP Blocks, your Company has been able to secure 60 out of 110 blocks. Out of the secured 60 NELP Blocks, in 35 Blocks your Company holds participating interest through Joint Ventures (JVs) and your Company holds 100% participating interest in the remaining Blocks. In the Sixth NELP round, Government has offered 55 blocks: 25 Onshore, 6 Shallow water and 24 Deepwater. As in the past, your company would like to be an aggressive bidder.

Hazira Gas Processing Complex of the Company has witnessed unprecedented floods and thus had to be put on planned shut-down from the midnight of August

07-08, 2006. On account of pro-active measures, timely action was taken for sequential safe shut-down thus minimising the damages. Revival work is underway on war footing to flow the gas at the quickest possible time, in order to minimise the hardship on the HVJ gas pipeline consumers.

Your Company's wholly-owned subsidiary, ONGC Videsh Limited (OVL), the biggest Indian Multinational in terms of overseas investment recorded the following achievements:

- Highest-ever Production
- Highest-ever Turnover
- Highest-ever Profits
- Status of second largest E&P company in India (Second only to your Company)

Your Company's subsidiary, Mangalore Refinery & Petrochemicals Ltd. (MRPL) registered commendable performance in operations, with the following achievements:

- Highest-ever Crude Run
- Highest-ever Capacity Utilization
- Highest-ever Turnover
- Lowest-ever Energy Consumption



Mr. R.S.Sharma takes over the charge of C&MD from Mr. Subir Raha.

1. FINANCIAL RESULTS

Your Company scaled a new mile-stone to record a **Net Profit of Rs. 144,308 million** (up 11.15% from Rs. 129,830 million in 2004-05). In the process it retained the distinction of being the highest profit making company of India.

During the year under review, your Company registered a gross revenue of Rs. 494,397 million (up 4.64% from Rs. 472,454 million in 2004-05), despite sharing under recoveries of Rs. 119,565 million, of the Public Sector Oil Marketing Companies by way of discounts in the price of Crude Oil, Liquefied Petroleum Gas (LPG) and Kerosene(SKO), on administrative instructions of the Ministry of Petroleum & Natural Gas, Government of India.

Highlights:

• Sales Revenue	Rs. 482,288 Million
• Profit after Tax (PAT)	Rs. 144,308 Million
• Contribution to Exchequer (ONGC's contribution to Central and State Government by way of Cess, Royalty, Duties, Taxes and dividend on Central Government's shareholding)	Rs. 234,086 Million
• Return on Capital Employed	57.50%
• Debt-Equity Ratio	0.002:1
• Earning Per Share (Rs.)	101.20
• Book value per share (Rs.)	376.00

Summary

(Rs. in million)

	2005-06		2004-05	
Gross Revenue		494,397		472,454
Gross Profit		306,680		261,878
Less :				
Interest	470		377	
Exchange variation	(172)		2	
Depreciation	23,759		5,437	
Amortisation	31,437		31,588	
Depletion	29,702		24,851	
Impairment	(325)		140	
Provision/write offs	3,438		2,828	
Provision for Taxation (including deferred tax liability of Rs. 9,113 million)	74,063	162,372	66,825	132,048
Net Profit after tax		144,308		129,830
Appropriations				
Interim Dividend		35,648		28,518
Proposed Final Dividend		28,519		28,518
Tax on Dividend		9,000		7,764
Transfer to General Reserve		71,141		65,030
Total		144,308		129,830



Mr.R.S.Butola MD OVL (on right) hands over the dividend cheque to C&MD ONGC.

2. DIVIDEND

Your Company paid an interim dividend of Rs. 25/- per share (250%) in December, 2005. The Board of Directors has now recommended a final dividend of Rs. 20/- per share (200%), making the aggregate dividend at Rs. 45/- per share (450%), against previous year's Rs. 40/- per share (400%). The total dividend will absorb Rs. 64,167 million besides Rs. 9,000 million as tax on dividend. On your approval, this will be the **highest-ever dividend payout** by any Indian Company.

3. BONUS SHARES

You will be delighted to know that, in commemoration of your Company's Golden Jubilee, the Board of Directors, subject to shareholders approval, has recommended the issue of **Bonus Shares** as a 'Golden Jubilee Year Memorabilia', in the ratio of 1:2, that is one new equity share for every two equity shares held by the members on the date to be fixed by the Board.

4. PRODUCTION & SALES

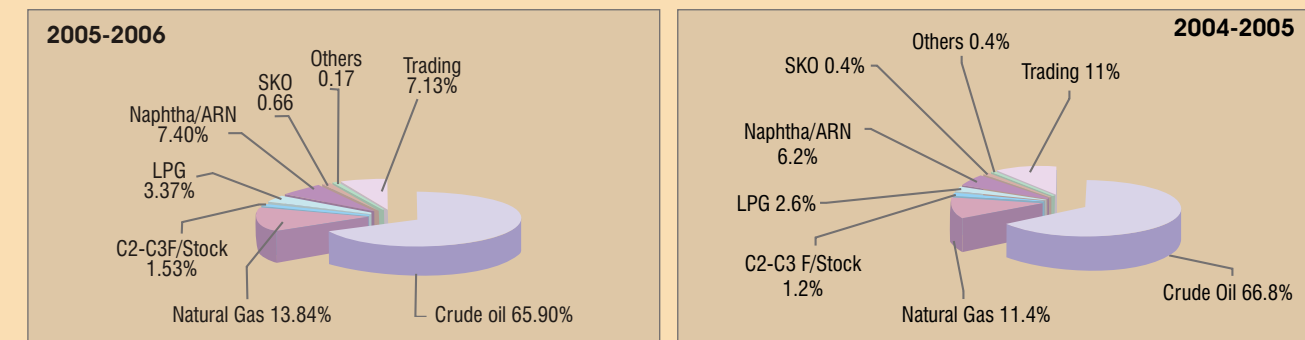
Highlights of production and sales of Crude Oil, Natural Gas and Value-added products:-

	Unit	Production		Sales		Value (Rs. in million)	
		2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
DIRECT							
CRUDE OIL	(MMT)	26.19*	28.13*	22.45	24.09	317,806	311,824
NATURAL GAS	(BCM)	24.97**	25.23**	20.50	20.64	66,701	53,204
C2-C3 FEED STOCK	000 MT	535	528	535	528	7,401	5,705
LPG	000 MT	1094	1095	1084	1086	16,279	12,082
NAPHTHA/ARN	000 MT	1557	1619	1578	1567	35,679	29,260
S K O	000 MT	178	177	176	177	3,185	1,697
OTHERS						849	1,754
SUB TOTAL						447,900	415,526
TRADING							
MOTOR SPIRIT	000 KL			110	262	3,797	6,846
S K O	000 KL			432	970	7,420	15,199
HSD	000 KL			874	1538	23,171	28,995
SUB TOTAL						34,388	51,040
GRAND TOTAL						482,288	466,566

*inclusive of 1.78 MMT in 2005-06 and 1.65 MMT in 2004-05 from joint ventures.

**inclusive of 2.39 BCM in 2005-06 and 2.26 BCM in 2004-05 from joint ventures.

Product-wise Performance



5. OIL & GAS RESERVES

As a measure of good governance, your Company has made voluntary disclosures in respect of its Oil & Gas Reserves. Such voluntary disclosures conform to the Reserves Categorisation procedure specified by the Society of Petroleum Engineers (SPE classification 1994) and comply with US Financial Accounting Standards Board (FASB) statement no. 69 for disclosure of annual estimates of proven Oil & Gas reserves.

You will be pleased to know that your Company has added 68.37 Million Metric Tonnes (MMT) of ultimate reserves of oil and oil-equivalent gas (O+OEG) during the year under review from its domestic & overseas assets (held by OVL). The domestic accretion was 51.65 MMT including ONGC's share in JVs against production of 51.16 MMT during 2005-06.

Ultimate Reserve Accretion O+OEG in MMT

Year	Domestic Assets	Domestic JVs (ONGC's Share)	Total Domestic Reserve	Foreign Assets (OVL's Share)	Total
	1	2	3 (1+2)	4	5 (3+4)
2003-04	33.67	0.17	33.84	15.22	49.06
2004-05	49.40	14.61	64.01	10.44	74.45
2005-06	51.53	0.12	51.65	16.72	68.37

Statement of Reserve Recognition Accounting

- The concept of Reserve Recognition Accounting attempts to recognise income at the point of discovery of reserves and seeks to demonstrate the intrinsic strength of an organisation with reference to its future earning capacity in terms of current prices for income as well as expenditure. This information is based on the estimated net proved reserves (developed and un-developed) as determined by the Reserves Estimates Committee.
- As per FASB-69 on disclosure about oil and gas producing activities, publicly traded enterprises that have significant oil and gas producing activities are to disclose, with complete set of annual financial statements, the following information considered to be supplemental information:
 - Proved oil and gas reserve quantities
 - Capitalised costs relating to oil and gas producing activities
 - Cost incurred for property acquisition, exploration and development activities.
 - Results of operations for oil and gas producing activities
 - A standardised measure of discounted future net cash flows relating to proved oil and gas reserve quantities.
- Your Company has disclosed information in respect of (a) to (d) above in the Annual Financial Statements. In respect of item (e) above, your Company has made voluntary disclosure on standardised measure of discounted future net cash flows relating to proved oil and gas reserves at **Annexure-B**.

6. FINANCIAL ACCOUNTING

The Financial Statements have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and in compliance with all applicable Accounting Standards (AS-1 to AS-29) and Successful Efforts Method as per the Guidance Note on

Accounting for Oil & Gas Producing Activities issued by The Institute of Chartered Accountants of India (ICAI) and provisions of the Companies Act, 1956.

7. SUBSIDIARIES

(i) ONGC Videsh Limited (OVL)

ONGC Videsh Limited (OVL), the wholly owned subsidiary of your Company which is engaged in overseas E&P activities made significant strides in 2005-06. The Company secured equity participation in 9 Oil & Gas Assets in 7 countries namely Block 81-1 in Libya, Block-2 in Nigeria, Block A-3 in Myanmar, Al Furat Producing Blocks in Syria, Block BC-10 in Brazil, Block 127 & 128 in Vietnam, Block 24,26,27,28,29 & 36 (including part of Block 35) and Block 34 & 35 in Cuba.



Mr. R.S Butola, MD, OVL (third from left) exchanges documents after signing the Production Sharing Contract with PETROVIETNAM.

OVL participates in 22 E&P assets in 13 countries namely Vietnam (3 assets), Russia, Sudan (3 assets), Iran, Iraq, Libya (3 assets), Myanmar (2 assets), Syria (2 assets), Qatar, Egypt, Cuba (2 assets), Nigeria and Brazil.

Besides, OVL has recently won two highly prospective exploration Blocks in oil-rich Nigeria through its joint venture company ONGC Mittal Energy Ltd. (OMEL). Out of the existing 22 assets, OVL is operator/ joint operator in 9 assets in 8 countries. OVL spudded its first well in the Farsi Offshore Block in Iran during April 2006, as operator in the block.

OVL is currently producing oil and gas from its assets in Sudan (Greater Nile Oil & Block 5-A Projects), Vietnam (Block 06.1), Syria (Al Furat) and on a limited scale from Russia (Sakhalin-1). Sakhalin-1 project is expected to go for full scale production in 2007. The Block 5A in Sudan has commenced production on 24th June, 2006 and Block BC-10 in Brazil is currently under development with production expected to begin in 2009-10; the remaining assets are in exploration/ appraisal phase.

OVL's share in production of Oil and Oil equivalent gas (O+OEG), together with its wholly-owned subsidiary ONGC Nile Ganga B.V., increased to 6.339 MMT a rise of 25%. OVL earned consolidated gross revenue of Rs. 81,707.28 million, up 36% and its net profit was Rs. 9,011.96 million, up 18%.

The Board of Directors of your Company has approved the subscription of 70 million additional equity shares of Rs. 100/- each of OVL at par, aggregating to Rs. 7,000 million by opting to convert the loan extended by your Company into equity.

(ii) Mangalore Refinery & Petrochemicals Limited (MRPL)

Your Company continues to hold 71.62% equity stake in MRPL. MRPL has scaled a new heights of excellence in its operational performance:

- Highest-ever Crude Throughput at 12.12 MMT;
- Highest-ever Capacity Utilisation at 125% - **the highest among all PSU Refineries;**
- Highest-ever Turnover of Rs.282,430 million;
- Highest-ever Export sales of Rs. 119,170 million;
- Lowest Energy Consumption among all similar Indian Refineries;
- Highest-ever Accident Free Working days- 951 days as on 18th July, 2006.



Mr. R. Rajamani MD, MRPL (right) hands over the quality certificate and delivery note of the first consignment of petro products from MRPL to Mauritius.

In spite of the excellent operational performance, MRPL earned a Net Profit of Rs.3,716 million against Rs.8,800 million in 2004-05, because of sharing of under recoveries/subsidy burden on LPG (domestic), SKO (PDS), MS and HSD, on the instructions of Ministry of Petroleum & Natural Gas, Government of India, on account of unprecedented increase in the crude oil prices. PSU Oil Marketing Companies (OMCs) have advised discounts of Rs.3,986 million as share of MRPL towards the above subsidy/ under recoveries. MRPL is seeking more equitable approach with Government of India regarding the mechanism of these discounts. Besides, the reduced lifting by the PSU refineries for domestic market, leading to higher exports with lower margins, has also adversely affected the financial performance of MRPL.

MRPL has started implementing a Refinery Up-gradation-cum-Expansion project involving a capital outlay of Rs.79,430 million to (i) increase the refining capacity to 15 MMTPA, (ii) increase the distillate yield by about 10% in lieu of low value black oil pool, (iii) enhance capacity to process cheaper high-sulphur & high TAN crude oils even while producing the transportation fuels of Euro III / Euro IV standards and (iv) enable MRPL's entry into Lube Oil Base Stock (LOBS) market with 250,000 tonnes per annum capacity. Engineers India Ltd. (EIL) has been appointed Project Management Consultant (PMC) and the project is scheduled to be completed in 48 months time (June, 2010).

In addition, an Aromatic complex is also being set up through a separate SPV of ONGC/ MRPL at Mangalore SEZ with an estimated project cost of Rs.48,520 million to bring value-addition to surplus naphtha by producing paraxylene.

The Board of Directors of MRPL has recommended a dividend of Rs. 0.7/- per share (7%) for the year 2005-06.



MRPL: Refinery Units.

8. EXEMPTION IN RESPECT OF ANNUAL REPORT OF SUBSIDIARIES

In terms of approval granted by the Central Government under Section 212(8) of the Companies Act, 1956, copy of the Balance Sheets, Profit and Loss Accounts, Reports of the Board of Directors and Reports of the Auditors of the Subsidiary Companies have not been attached to the Accounts of the Company. The Company will make available these documents/details upon request by any member of the Company interested in obtaining the same. The Annual Reports of MRPL & OVL are available on their respective websites www.mrpl.co.in & www.ongcvidesh.com. However, pursuant to Accounting Standard (AS-21) issued by the Institute of Chartered Accountants of India, the Consolidated Financial Statements presented by the Company include the financial information of its subsidiaries.

9. JOINT VENTURES/ASSOCIATES

(i) Petronet LNG Limited (PLL)

Your Company has 12.5% equity stake in PLL. During the year 2005-06, it has achieved the extraordinary dual distinction of becoming a profit-making undertaking and recording an almost 100% operating capacity (against 50% in 2004-05). During the year, the turnover is Rs. 38,371.7 million, profit before tax is Rs. 2,950.3 million and profit after tax is Rs. 1,949.3 million, respectively.

(ii) ONGC Tripura Power Company Pvt. Ltd. (OTPC)

Incorporated as Joint Venture with Tripura Power Development Corporation Ltd. (TPDC) and Infrastructure Leasing & Financial Services (IL&FS). The objective is that of monetisation of your Company's idling gas reserves by setting up a gas-based power generating project in Tripura. OTPC is setting up 740 MW (2x370 MW) power generation plant in Tripura at an all inclusive cost of Rs. 29,031 million. Your Company has also approved subscription of upto 15% equity in the transmission project.

Further, your Company has decided to lend Rs 200 million as unsecured loan to Tripura Power Development Corporation Ltd. (TPDC) for taking up project development work and to allot land for the project at a nominal cost. A sum of Rs. 191.49 million has been paid to TPDC during the year.

(iii) Pawan Hans Helicopters Limited (PHHL)

Your Company has 21.5% equity in PHHL, which provides helicopter services primarily to your Company. PHHL earned a provisional net profit of Rs 370 million during 2005-06.

(iv) Petronet MHB Limited (PMHBL)

Your Company holds 23% equity stake in this product pipeline company linking MRPL to Bangalore. PMHBL is incurring losses because of low capacity utilisation. Initiatives have been taken for optimal capacity utilisation and for restoring the financial health of the company.

(v) Dahej SEZ Limited (DSL)

Your Company is the co-promoter of Dahej SEZ Limited (DSL) with 23% equity participation. The Government of Gujarat through Gujarat Industrial Development Corporation (GIDC) has a participative interest of 26%. The balance 51% equity of the Company shall be with other Joint Venture partners. DSL has been incorporated with the objective of developing a Special Economic Zone (SEZ) at Dahej, Gujarat. A Petrochemical Complex involving dual fuel cracker polymer plant at a cost of Rs. 135,400 million is being set up, involving an equity investment of Rs. 9,920 million by ONGC.

(vi) Mangalore SEZ Ltd. (M-SEZ)

Your Company along with Karnataka Industrial Area Development Board (KIADB), representing Government of Karnataka, is the anchor co-promoter of Mangalore SEZ Ltd., which has been incorporated on 24th February, 2006. ONGC holds 23% equity in this Special Purpose Vehicle (SPV) which has been established to develop infrastructure for MRPL's project within the SEZ. The Kannara Chamber of Commerce and Industry (KCCI) and Industrial Leasing & Financial Services Ltd. (IL&FS) have entered into an MOU envisaging participation of 51% in this SPV.

(vii) ONGC Mittal Energy Services Limited (OMESL)

Your Company has formed a Joint Venture (JV) company with Mittal Investments S.A.R.L. in the name of ONGC Mittal Energy Services Limited (OMESL) with the objective to focus on trading and shipping of Oil and Gas, including LNG. In this JV 98% of the equity shall be held by your Company and Mittal Investments S.A.R.L. in the ratio of 51:49. The balance 2% shall be with financial institutions.



Hon'ble Prime Minister Dr. Manmohan Singh waves the ONGC Flag at OTPC foundation laying ceremony at Palatana in Tripura.

10. OTHER BUSINESS INITIATIVES

In pursuit of achieving organisational growth with stability, your Company has been looking for new business growth options through entering into various strategic alliances in the form of Memorandum of Understanding (MoU) with companies having niche strength. Prominent amongst these are:

- (i) MoU with **Shell Exploration B.V.** to pursue joint business opportunities globally in the entire hydrocarbon value-chain.
- (ii) MoU with **Enter Nazionale Idrocarburi (ENI)**, the 6th biggest integrated Oil Major, a Fortune 500 company. The terms of the MoU extend beyond the confines of E&P, covering midstream projects like LNG as well.
- (iii) MoU with **Norsk Hydro of Norway**, one of the largest Offshore E&P Company in the world, for co-operation in Deepwater Drilling, Field Development and Reservoir Management.
- (iv) MoU with the **Institute of Petroleum Technology (IPT) of Norwegian University of Science and Technology and the National Geophysical Research Institute (NGRI)**, to pursue work on Reservoir Modeling for Enhanced Oil Recovery.
- (v) MoU was inked with another **Norwegian firm Roxar Software Solutions**, to enable your Company to focus on Real-Time Model Updation of Reservoir using Logging While Drilling (LWD), Geosteering information, integrated Log and Drilling data.
- (vi) MoU with **Shipping Corporation of India (SCI)** for forming of a joint-venture SPV, for Offshore services and related business.



Mr.N.K.Mitra, Director (Offshore) (right) exchanges the MoU documents with MD, Asian Supply Base (Malaysia) for upgradation of Nhava Sheva.



Mr.D.K.Pande, Director (Exploration) (seated left) is signing the MoU with MD, ENI of Italy.

- (vii) An Integrated Trading Desk (ITD) was established in 2003, as a platform for coordinating transactions relating to sourcing of crude oil for MRPL and export of products of ONGC group of companies namely, ONGC, ONGC Videsh, ONGC B.V. and MRPL. The ITD is engaged in varied activities like the international sale of crude oil from OVL's properties abroad; arranging MRPL's requirement of crude oil; export of surplus refined petroleum products of MRPL and export of surplus value-added petroleum products from ONGC's Hazira and Uran Plants. The desk's performance during the year, in successfully handling import of crude oil for MRPL under Term Contracts and the export of products/sale of crude through tenders has been commendable.

The future plan of ITD includes *inter alia* risk management, hedging, swapping, shipping, charter hiring etc.

11. HEALTH, SAFETY, ENVIRONMENT (HSE)

- (i) Your Company may be the only major listed company in the world to have all its operational facilities and onshore as well as offshore rigs, certified for Quality, Occupational Health & Safety and Environment Management System (QHSE) based on ISO 9001, OHSAS 18001, ISRS and ISO 14001. All our operations have passed the QHSE surveillance audit conducted in 2006. QHSE certificate demonstrates corporate commitment, corporate progress and ensures continual improvements.
- (ii) This year marks ONGC's efforts in identifying energy conservation projects that qualify for registration as Clean Development Mechanism (CDM) projects with United Nations Framework Convention on Climate Change (UNFCCC) under the Kyoto Protocol. The CDM projects developed so far fall under the category of 'Gas Flaring Reduction', waste heat recovery & energy efficiency based on the approved UNFCCC methodologies and the development of more projects is in progress. Upon registration of these projects the Certified Emission Reductions (CERs) earned could be traded for revenue earnings. Thirteen projects have been submitted to the Designated National Authority (DNA) & 11 projects have received host country approval.
- (iii) '**Samudra Shiksha**', a training vessel equipped with state-of-the-art equipments is being used for providing real life exposure to all offshore-going employees in fire control and sea-survival skills. The Company has entered into MOU with SINTEF, Norway for upgrading HSE training modules to international standards. In addition, IPSHEM, Goa has trained 63 personnel from International reputed oil companies and sea survival training was imparted to 1073 offshore going personnel.
- (iv) HSE website provides comprehensive safety standards, guidelines and other information such as accident reports, safety alerts etc.
- (v) Pilot projects of eco-friendly bio-remediation techniques for mitigating the oil spills in soil have shown very encouraging results. During 2005-06 your Company has bio-degraded 4,000 MT of oily sludge/waste.
- (vi) During the BHN accident on 27th July, 2005, the employees of your Company displayed exemplary courage and commitment which resulted in the rescue of 362 out of the 384 persons on board. This was possible due to high standard of mandatory safety training imparted to the employees and immediate activation and execution of the Regional Contingency Plan.



Safety is observed as the foundation of all operational activities in ONGC.

In view of the BHN accident, your Company has taken a number of steps to mitigate any possibility of such accident in future, such as strengthening Marine procedures, reviewing design of risers, conducting detailed Hazop studies, etc.

12. HUMAN RESOURCE

- (i) **Employee Welfare**
Your Company continues to extend several generous welfare benefits to the employees and their dependants by way of comprehensive medical care, education, housing and social security.
- (ii) **Voluntary Retirement Scheme (VRS)**
314 employees opted for voluntary retirement and they were released during the period 6th May to 05th July, 2005.

(iii) Post Retirement Benefit Scheme (PRBS)

Your Company has set up a PRBS Trust to provide financial security to superannuating employees. The Trust discharged its responsibilities in an efficient manner.

(iv) Composite Social Security Scheme (CSSS)

The Composite Social Security Scheme (CSSS), formulated by your Company, provides for an assured ex-gratia payment in the event of unfortunate death/ permanent disability of employee in service. During the year, 162 bereaved families received this benefit.

(v) Sahayog Trust

To alleviate hardship of personnel or their dependants in case of disability or death suffered on duty, your Company has set up "ONGC Sahayog Trust". An amount of Rs.11, 45,190/- was disbursed in the year 2005-06 among the beneficiaries.

(vi) Reservation Policy on SC/ST

Your Company complies with the Government guidelines.

The percentage of SC/ST employees, as on 1st April, 2006 was:

SC.....15.6%

ST.....8.0%

During the year 2005-06, special focused programmes for development of SC/ST Communities were undertaken and a sum of Rs.12.5 million was spent for Welfare of the SC/ST Communities.

Scholarships were awarded to 75 SC & ST students pursuing Engineering, MBA and Post Graduation courses in Geo-Sciences.

13. INDUSTRIAL RELATIONS

During the year, harmonious Industrial Relations were maintained in the Company and no man days were lost.

14. OFFICIAL LANGUAGE

A series of Hindi computer training programmes were organised in all major offices. Several training courses on translation were conducted with the help of Central Translation Bureau, Govt. of India.

Besides, a number of programmes, symposium and seminars etc. were organised in Hindi to commemorate your Company's Golden Jubilee. All fresh inductees at the officer level were exposed to the Official Language Policy of Govt. of India.

15. ACCOUNTING OF HUMAN RESOURCE

The organisational knowledge in your Company is the sum-total of information and experience in the minds of our people, as well as the cumulative knowledge in the organisational systems. This is a priceless asset. Nevertheless, an attempt has been made to measure the sum-total potential of all employees across the ranks, using the "Lev and Schwartz" model which equates anticipated future earnings as the surrogate "value" of the employees.

Salient features of the determination:

- i. Employee Compensation is assumed to grow at rates varying between 2.5% and 4% per year for different salary groups for the balance period of service.
- ii. Non-salary benefits are extrapolated to grow @ 4% per annum for all levels.
- iii. NPV for the remaining years of service is calculated at the discount rate of 8%.
- iv. The valuation has been worked out for regular employees, covering Technical and Non-technical categories.

Based on these assumptions, your Company's Human Resource has been valued at Rs. 274,974 million as on 31st March, 2006. Details are at **Annexure-E**. These are unaudited figures.

16. CORPORATE SOCIAL RESPONSIBILITY

(i) Your Company as a responsible Corporate Citizen is focused on promotion of vocational education, healthcare and entrepreneurship in the community, coupled with initiatives in water management and disaster relief in the country. In recognition of these initiatives, The World Council of Corporate Governance conferred the **Golden Peacock Award** to ONGC for '**Corporate Social Responsibility in Emerging Economies-2006**' at the 7th International Conference on Corporate Governance held in May, 2006 in London.

(ii) Your Company contributed Rs.20 million to the Prime Minister's Relief Fund for the earthquake relief-work in the state of Jammu and Kashmir; all the employees of your Company contributed one day's salary to this noble cause.

(iii) ONGCpura Trust
ONGC launched the country's first PURA project in Maichara village of Tripura in 2005, with the objective of providing urban amenities in rural areas as envisaged by Dr.A.P.J.Abdul Kalam, Hon'ble President of India. The village Maichara has been provided with four centers of ONGCpura, namely, "Bijli Ghar (the electricity generation room), the "Randhan Seva" (the kitchen facility), "Samaj Shibir" (social camp) and "Gyan Kendra" (information centre), with modern facilities.

(iv) Donation for Cancer patients

Your Company donated Rs. 10 million for setting up a modern Intensive Care Unit at The Cancer Institute, Adyar in Chennai.

(v) Project Saraswati

To find deeper un-exploited groundwater resources in drought prone areas of western Rajasthan, an MoU has been signed with Water and Power Consultancy Services (India) Ltd. (WAPCOS), on 16th November 2005 under Project Saraswati. WAPCOS has been assigned the comprehensive turnkey job of carrying out feasibility studies and a pilot study, including drilling and testing of deepwater wells in 13 districts of western Rajasthan in six-and-a-half months.

(vi) Global Compact: Communication on Progress (CoP)

Your Company is an active member of the Global Compact Programme. It aggressively promotes 'Corporate Social Responsibility' under the Corporate Governance Practices by urging Indian industry and business to make collective efforts in making a meaningful difference in the lives of people and society through collective efforts.

(vii) Right to Information

With the objective to ensure every citizen's access to information under the control of the Company, consistent with public interest, in order to promote openness, transparency and accountability, an appropriate mechanism has been set up across the Company in line with the Right to Information Act, 2005.



A company that cares: Dr.A.K.Balyan, Director (Human Resource) lending a helping hand to a disabled in fixing an artificial limb.

17. WOMEN EMPOWERMENT

Women employees constitute 5% of the total workforce. Various programmes for empowerment and development, including programme on gender sensitisation at IIM, Ahmedabad, were organized through Women Development Fora.

18. HUMAN RESOURCE DEVELOPMENT

Your Company is a Company with a global character. It behaves, thinks and performs in a manner in line with the global best-of-breed practices. It encourages employees to think in synchronicity with the world and prove their abilities by availing global opportunities.



Mr. U.N Bose, Director (Technology & Field Services) leading the seminar.

Customised training programmes that enhance personal as well as career growth of employees are carried out regularly.

Your Company in association with Punjab Technical University, Jalandhar, Management Development Institute, Gurgaon and Indian Institute of Foreign Trade, New Delhi, has sponsored a number of employees to develop their competencies. The aim is to improve professional excellence as well as develop all-round management skills of employees at all levels. Some of the initiatives are as follows:

(i) Unnati Prayas Scheme

ONGC introduced in-house Engineering and Technology education programme under which 129 employees of the First Batch were conferred B.Tech. degrees awarded by Punjab Technical University, Jalandhar, in the field of Mechanical, Electrical, Electronics & Communication and Instrumentation Engineering at the First Unnati Prayas convocation held on 15th August, 2005.

The course instructions for the second batch have commenced and an additional stream of Diploma in Electrical Engineering has been introduced for non-executives. Three lady executives have also joined the second batch.

(ii) Super Unnati Prayas Scheme

The first Batch of 20 executives engaged in a customised, exclusive MBA programme at the Indian Institute of Foreign Trade (IIFT) were conferred with MBA degrees in International Business at the 40th IIFT convocation in New Delhi. Our executives excelled and eight of our executives, out of a batch of twenty, surpassed the highest grade of the topper of the regular batch by achieving CGPA of more than 3.9. Mr. Rajashri Gupta, Manager (Logistics), bagged the gold medal creating an all time high record of 4.27 CGPA in the history of IIFT.

Another 20 executives, pursuing a consortium MBA programme at MDI Gurgaon, successfully completed the course with excellent performance and were awarded MBA degrees in March, 2006.

(iii) Shangsaptak

This unique, innovative and exclusive orientation programme for below-the-Board executives is being conducted at the Indian School of Business (ISB), Hyderabad. This unique programme of three modules spread over 15 months includes classroom sessions, overseas learning component and project/ assignments to be undertaken by the participants. The overseas learning component includes internationalised training at Petronas (Malaysia), Trafigura (Singapore), British Petroleum (UK), Exxon Mobil (USA), Baker Hughes (USA) and University of Houston among others.

The second batch of 31 executives completed their exposure to a world-class curriculum with academic and industry exposure in October, 2005 and the course for the third batch of 31 senior executives commenced in August, 2005.

(iv) Senior Management Programme

A Senior Management Programme (SMP) was introduced this year for executives at middle level. A total of twenty six executives have undergone the programme which comprises of classroom learning for 14 days at MDI Gurgaon and an overseas learning component for the next 14 days including overseas training at OPEC HQ, Vienna, Vienna Power Plant, Garbage recycling plant, Vienna, British Petroleum Downstream hub-Austria, University of Antwerp, European School of Management-Paris, Luxembourg Stock Exchange, etc.

(v) ONGC Academy

As many as 3,848 executives attended 186 programmes at the academy, excluding 351 fresh executives inducted as graduate trainees on their induction course. The academy organised a total of 16 high intensity E&P training programmes on emerging technologies with training conducted by internationally renowned foreign faculty.

The Regional Training Institutes conducted 348 training programmes for 5,313 non-executives

During the year under report, eighteen participants from Oil Exploration Company (OEC), Iraq and National Iranian Oil Company (NIOC), Iran attended various customised and calendar programmes at ONGC Academy.



ONGC Academy receives the Golden Peacock Award for HR Training.

(vi) **ARCUBE**

As reported in 2004-05, your Company has initiated a comprehensive study to redefine the organization in order to achieve world class performance levels. The Three Rs represent Roster, Roles and Responsibilities. From the findings of this study, various HR initiatives have been identified and are under implementation, that is:

- Competency Mapping in the core business areas of exploration.
- Rationalisation of Cadres and Disciplines in line with the global best practices.
- Optimum manpower deployment in the operational areas like GGS, Rigs, etc.

19. INFORMATION TECHNOLOGY

Your Company is taking giant leaps to leverage IT for various business solutions. Best-in-class hardware infrastructure and software systems are in place.

The entire 3D seismic data and the original logs of more than 9,000 wells were computerised under Project EPINET. The e-procurement process and all the Welfare Trusts of your Company went on-line by integrating a variety of databases.

The Contract has been awarded for developing an enterprise wide Supervisory Control and Data Acquisition (SCADA) system for production and drilling facilities. This system will integrate the Assets, Basins, Plants, Forward Bases and other Assets to the Corporate Data Center facilitating 'anytime-anywhere' access to data and real-time performance management. The project is expected to be completed by October, 2007.

An MOU has been executed with the Military Engineering Services (MES) of Indian Army for providing complimentary infotech advisory services in the area of ERP.

SAMPARC, "System for Automated Management of Personnel Activities, Reimbursements and Claims", a portal-based employee information system, was launched in January, 2006. The system will enable employees to transact their personal claims etc., through the system.

20. SPORTS

As a responsible corporate citizen, your Company is committed to develop and promote sports, games and adventure activities and also provide an opportunity to talented sports persons to perform for the country.

Around 150 national and international sports persons are on the rolls of your Company and another 30 upcoming young talents from various fields of sport are also extended support to pursue their sports career and excel in their respective fields.

Your company has on its rolls achievers like Virender Sehwag, Munaf Patel (Cricket), Grand Master K. Sasikiran, Grand Master Sandipan Chanda, WGM Koneru Humpy (Chess), Jaspal Rana (Shooting), World Billard Champion Pankaj Advani, Chetan B. Anand (Badminton), Tejbir Singh (Hockey), Olympian Anil Kumar (Athletics), Mehtab Hussain, Jatin Bisht (Football), Karan Rastogi (Tennis) and many others.



ONGC gets the Petroleum Minister's trophy for the best Oil PSU for promotion of Sports.

Your Company has created a record by retaining the **Petroleum Minister's Trophy** for overall championship in the Petroleum Sports Promotion Board (PSPB) meets in 2005-06, for the seventh consecutive year. Your Company also received the trophy for **Best Organisation for Promotion of Sports** from the **All India Public Sector Sports Promotion Board (AIPSSPB)**

21. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed and there are no material departures from the same;
- the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and of the profit of the Company for the year ended on that date;
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- the Directors have prepared the annual accounts of the Company on a 'going concern' basis.

22. CORPORATE GOVERNANCE

A report on Corporate Governance as stipulated as per Clause 49 of the Listing Agreement, together with Management Discussion and Analysis Report supported by a certificate from the Company's Auditors confirming compliance of conditions, forms part of this report.



Company Secretaries of the ONGC group of companies receiving the 'Golden Peacock Global Award - 2005' for excellence in Corporate Governance.

In recognition of your Company's remarkable achievements in the area of Corporate Governance, the Institute of Directors (IOD), New Delhi has conferred the **'Golden Peacock Global Award 2005' for Excellence in Corporate Governance** on your Company (January 2006).

Your Company, acknowledging its corporate responsibility, has voluntarily obtained a 'Secretarial Audit Report' for the financial year ended 31st March, 2006 from M/s A.N. Kukreja & Co., Company Secretaries in whole-time practice, which is annexed to this Report.

The report confirms that the Company has complied with all the applicable provisions of the Companies Act, 1956, Depositories Act, 1996, Listing Agreement with Stock Exchanges, Securities Contracts (Regulation) Act, 1956 and all regulations of SEBI as applicable to your Company including SEBI (Substantial Acquisition of Shares & Takeover) Regulations, 1997 and SEBI (Prohibition of Insider Trading) Regulations, 1992.

In line with global practices, your Company is committed to maintain the highest standards of Corporate Governance, reinforcing the relationship between the Company and its Shareholders. From 9th May, 2005 onwards information required by investors is available on

the Company's corporate website www.ongcindia.com. This portal provides updates on financial statements, investor-related events and presentations, dividend information and shareholding pattern along with media releases, company overview, reports on Corporate Governance etc.

23. STATUTORY DISCLOSURES

Your Directors have made necessary disclosures, as required under various provisions of the Act and Clause 49 of the Listing Agreement. The information required under section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, as amended is at **Annexure-A**.

None of the employees of your Company is drawing remuneration exceeding the limits laid down under provisions of section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.

24. CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the Accounting Standard AS-21 on Consolidated Financial Statements read with Accounting Standard AS-23 on Accounting for Investments in Associates and with Accounting Standard AS-27 on Financial Reporting of Interests in Joint Ventures, the Audited Consolidated Financial Statements for the year ended 31st March, 2006 of the Company and its subsidiaries form part of the Annual Report and Accounts.

25. AUDITORS

The Statutory Auditors of your Company are appointed by the Comptroller & Auditor General of India (C&AG). M/s K.K. Soni & Co., M/s S.Bhandari & Co., M/s Brahmayya & Co., M/s Lodha & Co., and M/s. S.C. Ajmera & Co. Chartered Accountants were appointed as joint Statutory Auditors for the financial year 2005-06. Their Report with corresponding replies from the Board of Directors, is attached as an addendum at **Annexure-C** forming part of this report.

The comments of the C&AG alongwith Management's replies are placed at **Annexure-D** and form part of this report.

26. DIRECTORS

Shri R. S. Sharma, Director (Finance) assumed additional charge of the post of Chairman & Managing Director with effect from 25th May, 2006 as an interim arrangement, consequent upon completion of the five-year term of Shri Subir Raha as Chairman & Managing Director on 24th May, 2006.

Pursuant to the provisions of Section 260 of the Companies Act, 1956 and Clause 104(l) of Articles of Association of the Company, Dr. R.K. Pachauri, Shri V.P. Singh, Shri PK. Choudhury and Dr. Bakul H. Dholakia were appointed as additional non-official part-time Directors w.e.f. 26th June, 2006, by Government of India and would hold office upto the date of ensuing AGM. The Company has received notices in writing from members proposing their candidatures for the office of Directors liable to retire by rotation.

Shri M.M. Chitale, U. Sundararajan and Rajesh V. Shah, non-official part-time Directors shall be completing their tenure of 3 years on 10th September, 2006. Shri Sunjoy Joshi, Joint Secretary, MoP&NG and Shri PK. Deb, Joint Secretary, Ministry of Finance (MoF) vacated office as Directors on 5th December, 2005. Shri PK. Sinha, Joint Secretary and Financial Advisor, MoP&NG vacated office as Director on 3rd March, 2006.

Shri M.S.Srinivasan, former Special Secretary, MoP&NG and Shri Ashok Chawla, Addl. Secretary, Ministry of Finance (MoF) were respectively appointed as Directors on 05.12.2005 in place of Shri Sunjoy Joshi, Joint Secretary, MoP&NG and Shri PK.Deb, Joint Secretary, MoF. On elevation of Shri M.S.Srinivasan, to the position of Secretary, MoP&NG, Shri Anil Razdan, Addl. Secretary, MoP&NG was appointed as Director on 20th February, 2006.

Shri D.K.Pande and Shri U.N. Bose assumed the charge of Director (Exploration) and Director (T&FS) on 23rd September, 2005 and 27th September, 2005 respectively in place of Shri Y.B.Sinha and Shri Nathu Lal. Shri A.M. Uplenchwar joined the Board as IOC nominee on 23rd December, 2005 in place of Shri N.K.Nayyar.

In terms of Clause 104(a) of the Articles of Association, Shri R.S. Sharma, Dr. A.K. Balyan, Shri U.N. Bose and Shri Ashok Chawla retire by rotation, and being eligible, offer themselves for re-appointment at the ensuing AGM.

Brief resumes of the Directors seeking re-appointment, together with the nature of their expertise in specific functional areas and the names of the companies in which they hold the directorship, the number of shares held and the membership/chairmanship of

committees of the Board, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges are given in the notice convening the ensuing 13th Annual General Meeting of the Company, forming part of the Annual Report.

27. ACKNOWLEDGEMENT

The Directors convey their sincere appreciation for the commitment and dedication of all the ONGCians for the excellent performance of your Company.

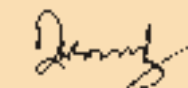
The Directors also wish to thank the Government of India, particularly the Ministry of Petroleum and Natural Gas, Ministry of Finance, Director General of Hydrocarbons, various State Governments and Reserve Bank of India for their valuable guidance and support.

We wish to pay special thanks to the Indian Navy and Coast Guard for their timely and valuable assistance in successfully handling rescue operations during the major fire accident at BHN platform in Mumbai High.

The Directors wish to place on record its appreciation of the significant contribution and valuable services rendered by Shri Subir Raha, Shri M.S. Srinivasan, Shri PK. Sinha, Shri Sunjoy Joshi, Shri PK.Deb, Shri Y.B.Sinha, Shri Nathu Lal and Shri N.K.Nayyar, during their tenure on the Board of your Company.

Last but not the least your Directors wish to place on record their appreciation for sustained support from all stakeholders and business partners in helping the Company fulfill its vision of **'MAKING TOMORROW BRIGHTER'**.

On behalf of the Board of Directors



(R.S. Sharma)

Chairman & Managing Director

New Delhi
16th August, 2006